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**WATER/ABJ/PTL: jlj**

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**WATER DIVISION  
WATER ADVISORY BRANCH**

**RESOLUTION NO. W-4302  
OCTOBER 25, 2001**

**RESOLUTION**

**(RES. W- 4302), DEL ORO WATER COMPANY, LIME SADDLE  
DISTRICT. ORDER AUTHORIZING A GENERAL RATE INCREASE  
IN RATES PRODUCING \$25,387 OR 12.28% ADDITIONAL ANNUAL  
REVENUE.**

**SUMMARY**

By Draft Advice Letter, originally filed on April 18, 2000, then revised on June 10, 2001, LSD seeks an increase in its rates for water service to recover increased expenses of operation and earn an adequate return on its plant investment. For Test Year 2001, this resolution grants an increase in gross annual revenues of \$25,387 or 12.28%, which is estimated to provide a rate of return on rate base of 9.97%. LSD also requested authority to assess a surcharge of \$0.47 per 1,000 gallons of water consumption for one year to offset a \$31,805 under-collection in the full cost water supply balancing account required by Commission Res. W-4176. This resolution grants a surcharge of \$0.24 per 1,000 gallons of water consumption for two years to offset the under-collection.

**BACKGROUND**

LSD requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$27,581 per year or 13.34% in 2001. LSD's request shows that its gross annual revenue of \$206,687 at present rates would increase to \$243,268 at proposed rates. LSD also requested to assess a surcharge of \$0.47 per 1,000 gallons of water consumption for one year to recover an under-collection of \$31,805 in its full cost water supply balancing account required by Res. W-4176, dated December 16, 1999.

LSD's current rates were established on July 8, 1993, pursuant to Res. W-3789 that authorized a general rate increase of \$37,093 or 37.5%. LSD presently serves approximately 414 metered connections in an area west of Lake Oroville and south of the town of Paradise, Butte County.

At the time of its last general rate increase, LSD was purchasing all of its water from Stirling Bluffs Corporation (SBC), a subsidiary of Del Oro Water Company (DOWC). The water was processed and wheeled to LSD by the Paradise Irrigation District (PID). Although LSD had two functional wells at that time they were both dry due to the effects of the six-year drought in California. LSD was, therefore, authorized \$78,920 in rates, pursuant to Commission

Res. W-3789, dated July 8, 1993, to recover the estimated purchased water cost for test year 1993, assuming all water supply was to be purchased. In the latter part of 1999 while reviewing LSD's Annual Reports to the Commission, the Water Advisory Branch (Branch) discovered that since 1993, the utility had been supplementing its purchased water supply with water pumped from its own wells. Because pumped water is significantly cheaper than purchased water, LSD's water supply cost (purchased water cost + pumped water cost) was lower than the \$78,920 cost authorized in Res. W-3789 in 1994, 1995, 1997, and 1998, with a significant difference of \$22,384 in 1998. Because of a concern that the savings in water supply costs being experienced by LSD since 1993 could mean that the utility was earning a return in excess of the return found reasonable for the utility, the Commission issued Res. W-4176, dated December 16, 1999, requiring LSD to immediately institute and maintain a full cost water supply balancing account tracking both the cost of purchased water and the cost of electricity to pump the water from the wells, and to file for a general rate case within 180 days. The full cost water supply balancing account was required to insure that customers were not harmed from that point on by the possibility of LSD over earning due to the savings in water supply costs. The general rate case request was required to determine whether or not LSD was in fact over earning. The filing of this draft advice letter rate increase request is in compliance with the requirements of Res. W-4176 as described above.

## **DISCUSSION**

The Branch made an independent analysis of LSD's summary of earnings. Appendix A shows LSD's and the Branch's estimates of the summaries of earnings at present, requested, and adopted rates for test year 2001. Appendix A also shows the difference between LSD's and the Branch's estimates of revenue being due only to the difference in estimates of rate of return. LSD and the Branch discussed this difference and LSD agreed with the Branch's calculations.

As mentioned earlier, Res. W-4176 required that LSD institute and maintain a full cost water supply balancing account. Because of the substantial increase in the cost of water sold by Pacific Gas and Electric Company to DOWC from \$128.11/acre foot in 1999 to \$306.58/acre foot in 2000<sup>1</sup>, an under-collection of \$31,805 has accumulated in the full cost water supply balancing account since it was instituted. The utility has requested to assess a surcharge of \$0.47 per 1,000 gallons of water consumption for one year to recover the under-collection in the balancing account. This is more than 5% of the utility's last revenue requirement and is properly recovered over two years (\$0.24 per 1,000 gallons for two years). LSD has recently drilled a well and placed it into service. The well is currently producing 50 gallons per minute (gpm) of water that could reduce the amount of water LSD would need to purchase in the future. Because it is uncertain at this point whether or not the well can produce 50 gpm of water consistently over time, the Branch recommends that the full cost water supply balancing account remain in place to next general rate case until a more permanent and stable volume yield of the well can be

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<sup>1</sup> On May 31, 2001, PG&E reduced the cost of water (for this year only) to \$155.88/acre foot.

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established. The balancing account will insure that customers are compensated for any savings in purchased water that the new well will produce.

LSD's draft advice letter requested rates that it estimated would produce a rate of return on rate base of 10.90%. The Water Division's Audit & Compliance Branch has performed a cost of capital analysis and determined that the rate of return should be 9.97%. This recommendation is based on an analysis of the capital structure and embedded cost of debt for the DOWC as well as a determination of a reasonable return on equity for a Class B utility. The summary of earnings in Appendix A shows a rate of return of 9.97 % at the Branch's recommended rates. LSD and the Branch discussed the difference and agreed upon the summary of earnings adopted in this resolution.

LSD's filed tariffs currently contain one rate schedule: Schedule No. LS-1A – Annual Metered Service. LSD requested to increase both the service charge and the commodity rates by the system average increase requested. Branch found this reasonable; therefore, its recommended rates in Appendix B were derived by increasing both the service charge and the commodity charge by the system average increase authorized in this resolution.

At the Branch's recommended rates shown in Appendix B, the monthly bill for an average residential customer using 10,000 gallons of water will increase by \$4.27 from \$34.91 to \$39.18 or 12.23%. A comparison of customer bills at present and recommended rates is shown in Appendix C.

The adopted quantities and tax calculations are shown in Appendix D.

### **NOTICE AND PROTESTS**

A notice of the proposed increase in rates initially filed by LSD was mailed to each customer on May 25, 2000. The notice of the revised request was published in the June 14, 2001 edition of the Paradise Post in Paradise. The Branch has received 42 form letters<sup>2</sup> protesting the increase and a petition signed by 55 individuals representing 30 households that a formal hearing in the matter be held. The Branch has responded to these letters and the signers of the petition. Section 1702 of the Public Utilities Code states:

” No complaint shall be entertained by the Commission, except upon its own motion.... or by not less than 25 actual or prospective consumers or .....”.

If the customers wish they may protest LSD's rates by filing a formal complaint.

The Branch conducted two public meetings regarding the rate increase request: the first one was June 12, 2000, and the second was on September 26, 2000. Approximately 70 individuals attended each meeting. In addition to protesting the increase, the primary concern of individuals at both meetings was the unreliability of water supply in the northern area of the system. LSD

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<sup>2</sup> These letters were pre-typed. The customers just signed the boiler-plate language.

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representatives explained that a project was already underway to connect Lake Oroville with the northern portion of the system where the water supply is unreliable. LSD has submitted a \$2,000,000 loan application to Heritage Bank of Commerce (Heritage) on September 13, 2001. Concurrently, Luhdorff & Scalmanini Engineers are working on the project's estimate and plans

for construction. Subject to qualifying with Heritage and following the Commission's loan authorization approval, the tentative construction time line is in the summer of 2002.

### **FINDINGS AND CONCLUSIONS**

1. The Branch's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Branch (Appendix B) are reasonable and should be authorized.
3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
4. After October 31, 2003, Lime Saddle District shall be required to file an advice letter requesting an appropriate surcharge or surcredit to offset the difference of the under- or over-collected balance.
5. The full cost water supply balancing account should remain in effect until the Lime Saddle District's next general rate case.
6. The rate increase proposed by the Branch is justified and the resulting rates are just and reasonable.

### **IT IS ORDERED that:**

1. Authority is granted under Public Utilities Code Section 454 for Del Oro Water Company, Lime Saddle District, to file an advice letter incorporating the Summary of Earnings and revised rate schedule attached to this resolution as Appendices A and B, respectively, and concurrently to cancel its presently effective rate Schedule No. LS-1A – Annual Metered Service. Its filing shall comply with General Order 96-A. The effective date of the revised schedules shall be five days after the date of filing.
2. Del Oro Water Company, Lime Saddle District shall file, no later than November 30, 2003, an advice letter requesting an appropriate one-time surcharge or surcredit to offset any remaining balance in the full cost water supply balancing account.
3. Del Oro Water Company, Lime Saddle District shall maintain the full cost water supply balancing account until its next general rate case.

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4. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on October 25, 2001; the following Commissioners voting favorably thereon:

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WESLEY M. FRANKLIN  
Executive Director

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**APPENDIX A**

DEL ORO WATER COMPANY - Lime Saddle District  
SUMMARY OF EARNINGS  
Test Year 2001

	Utility Estimated		Branch Estimated		Staff Adopted Rates
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	
<u>Operating Revenues</u>					
Metered Rate	\$206,687	\$234,268	\$206,687	\$234,268	\$232,074
<u>Operating Expenses:</u>					
Purchased Water	112,986	112,986	\$112,986	\$112,986	\$112,986
Power	12,000	12,000	12,000	12,000	12,000
Other Vol. Related Costs	5,000	5,000	5,000	5,000	5,000
Employee Labor	10,706	10,706	10,706	10,706	10,706
Materials	1,000	1,000	1,000	1,000	1,000
Contract Work	1,758	1,758	1,758	1,758	1,758
Transportation	3,063	3,063	3,063	3,063	3,063
Office Salaries	14,275	14,275	14,275	14,275	14,275
Management Salaries	6,695	6,695	6,695	6,695	6,695
Empl. Pensions & Ben.	4,343	4,343	4,343	4,343	4,343
Office Services & Rentals	3,556	3,556	3,556	3,556	3,556
Office Suppl. & Expenses	5,208	5,208	5,208	5,208	5,208
Professional Services	13,764	13,764	13,764	13,764	13,764
Insurance	1,500	1,500	1,500	1,500	1,500
Regulatory Expense	2,500	2,500	2,500	2,500	2,500
Subtotal	198,172	198,172	198,172	198,172	198,172
Depreciation Expense	8,034	8,034	8,034	8,034	8,034
Taxes Oth than Inc Taxes	4,715	4,715	4,715	4,715	4,715
Income Tax Expense	<u>4,248</u>	<u>4,248</u>	<u>800</u>	<u>4,176</u>	<u>3,682</u>
Total Expenses	215,169	215,169	211,721	215,097	214,603
Net Revenue	(8,482)	19,099	(5,034)	19,171	17,471
<u>Rate Base</u>					
Average Plant	701,855	701,855	701,855	701,855	701,855
Aver. Depr. Reserve	(289,661)	(289,661)	(289,661)	(289,661)	(289,661)
Net Plant	412,194	412,194	412,194	412,194	412,194
Acquisition Adjustment	(253,919)	(253,919)	(253,919)	(253,919)	(253,919)
Working Cash	16,514	16,514	16,514	16,514	16,514
Materials	430	430	430	430	430
Rate Base	175,220	175,220	175,220	175,220	175,220
Rate of Return	Loss	10.90%	Loss	10.94%	9.97%

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**(END OF APPENDIX A)**

**APPENDIX B**

DEL ORO WATER COMPANY  
Lime Saddle District

Schedule No. LS-1A

**ANNUAL METERED SERVICE**

**APPLICABILITY**

Applicable to all metered water service furnished on an annual basis to the Lime Saddle service area.

**TERRITORY**

All territory served by Del Oro Water Company, Inc. in the area known as Lime Saddle Community Services District, located south of the Town of Paradise and north of Highway 70, Butte County.

**RATES**

Quantity Rate:

All water, per 1,000 gallons.....	\$ 2.16	(I)
*Purchased water surcharge per 1,000 gallons	0.24	(N)

Per Meter  
Per Year

Service Charge:

For all meter sizes.....	\$211.00	(I)
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The Service Charge is a readiness-to-serve charge, which is applicable to all metered water service and to which is added to the charge for water used at the Quantity Rate.

\*Purchased water surcharge should be collected from November 1, 2001 through October 31, 2003.

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**(END OF APPENDIX B)**



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**APPENDIX C**

DEL ORO WATER COMPANY  
Lime Saddle District

Schedule No. LS-1A

ANNUAL METERED SERVICE

COMPARISON OF RATES

A comparison of LSD's present rates and the Branch's recommended rates is shown below:

	<u>Present Rates</u>	<u>Recommended Rates</u>
<u>QUANTITY RATE</u>		
All water, per 1,000 gallons:	\$1.92	\$2.16
Purchased Water Surcharge per 1,000 gallons	\$0.00	\$0.24
<u>SERVICE CHARGE</u>		
	<u>Per Meter Per Year</u>	
For all meter sizes.....	\$188.42	\$211.00

A comparison of monthly bills at various consumption rates is as follows:

Quantity Used (000) gals.	<u>Current Rates</u>	<u>*Proposed Rates</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
5	\$25.31	\$28.38	\$3.07	12.13%
10	34.91	39.18	4.27	12.23
15	44.51	49.98	5.47	12.29
20	54.11	60.78	6.67	12.33
25	63.71	71.58	7.87	12.35

\*These proposed rates do not include the requested purchased water surcharge of \$0.24 per 1,000 gallons used which is needed to balance the under collected balance in the purchased water balancing account.

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**(END OF APPENDIX C)**

**APPENDIX D**  
**DEL ORO WATER COMPANY**  
**Lime Saddle District**

**ADOPTED QUANTITIES**

**EXPENSES**

1. Purchased Power	\$12,000
Pacific Gas & Electric Company	
<b>Rate Schedule</b>	<b>A1-P Services</b>
Summer (\$/kWh)	\$0.1487
Winter (\$/kWh)	\$0.10193
Summer total kWh (\$/kWh)	35,202
Winter total (\$/kWh)	<u>18,204</u>
Subtotal Cost	\$7,000
<b>Rate Schedule</b>	<b>A6-P Services</b>
Summer Peak kWh	5,054 kWh
Summer Part Peak kWh	8,732 kWh
Summer Off Peak kWh	21,742 kWh
Winter Part Peak kWh	9,092 kWh
Winter Off Peak kWh	11,553 kWh
Subtotal Cost	\$5,000
Total Power Cost	\$12,000
2. Purchased Water	\$112,986
3. Insurance Expense	\$1,500
4. Ad Valorem Taxes	\$2,150
5. Payroll Taxes	\$2,565
<b><u>Service Connections</u></b>	
Metered Rate: All meter sizes	414
Meter Water Sales Used to Design Rates	67,000,000 gallons

**ADOPTED INCOME TAX CALCULATIONS**

Test Year 2001

Line <u>No.</u>	<u>Item</u>	State <u>Tax</u>	Federal <u>Tax</u>
1.	Operating Revenues	\$232,074	\$232,074
2.	Expenses	\$198,172	\$198,172
3.	Property Taxes	\$ 2,150	\$ 2,150
4.	Depreciation	\$ 8,034	\$ 8,034
5.	Payroll Taxes	\$ 2,565	\$ 2,565
6.	Interest	\$ 4,800	\$ 4,800
7.	State Taxable Income	\$ 16,353	
8.	State Tax (@8.84%)	\$ 1,446	\$ 1,446
		=====	=====
9.	Federal Taxable Income		\$ 14,907
10.	Federal Income Tax (@15%)		\$ 2,236
11.	TOTAL STATE AND FEDERAL INCOME TAX		\$ 3,682

**(END OF APPENDIX D)**